

Message Text

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TAGS: ENRG, VE

SUBJECT: SCHLESINGER/HERNANDEZ MEETING

1. SUMMARY. THE SCHLESINGER/HERNANDEZ MEETING WENT WELL AND GAVE SUBSTANCE TO THE EARLIER PRESIDENTIAL AGREEMENT FOR BILATERAL ENERGY CONSULTATIONS. SECRETARY SCHLESINGER OUTLINED THE STATUS OF THE ENERGY LEGISLATION AND ITS LIKELY IMPACT ON THE FUTURE US MARKET; HE STRESSED THE IMPORTANCE OF BOTH PRICE AND SECURITY OF SUPPLY; AND HE AFFIRMED THAT THE PRIVATE COMPANIES RATHER THAN GOVERNMENTS WOULD REMAIN THE MAJOR CONTRIBUTORS TO ENERGY R&D AND DEVELOPMENT OF NEW TECHNOLOGIES. HERNANDEZ DESCRIBED PETROVEN'S INVESTMENT PLANS AND SOUGHT ASSURANCE OF A LONG-
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TERM MARKET FOR VENEZUELAN RESIDUAL FUEL OIL. HE PROPOSED THAT THE USG ASSIST WITH DEVELOPMENT OF THE ORINOCO TAR BELT AND PROMISED ADDITIONAL INFORMATION ON HOW THIS ASSISTANCE COULD WORK. THE MINISTERS AGREED ON REGULAR INFORMATIONAL EXCHANGES, NORMALLY AT THE TECHNICAL LEVEL BUT WITH THE POSSIBILITY OF FUTURE MINISTERIAL SESSIONS. THEY ALSO AGREED TO ESTABLISH A BILATERAL PROGRAM OF

ENERGY COOPERATION. END SUMMARY.

2. ENERGY SECRETARY SCHLESINGER MET FOR TWO HOURS WITH VENEZUELAN MINISTER HERNANDEZ AND HIS COLLEAGUES ON MARCH

6. DEPUTY SECRETARY O'LEARY AND ASSISTANT SECRETARY BERGOLD ALSO ATTENDED FOR THE ENTIRE SESSION, AS DID STATE'S DEPUTY ASSISTANT SECRETARY ARELLANO. THE VENEZUELAN DELEGATION WAS APPRECIATIVE OF THE HIGH LEVEL ATTENTION GIVEN TO THE HERNANDEZ VISIT.

3. SECRETARY SCHLESINGER LED OFF THE MEETING BY ASSESSING THE CONGRESSIONAL REACTION TO THE NATIONAL ENERGY PLAN AND ITS LIKELY IMPACT ON THE US ENERGY FUTURE. WITH THE CURRENT LEGISLATION, NEW INITIATIVES TO STIMULATE ALTERNATIVE SUPPLIES, AND A REASONABLE SUCCESS RECORD ON THE OUTER CONTINENTAL SHELF, THE SECRETARY PREDICTED A US OIL IMPORT LEVEL OF 9 MMBD IN 1985. THIS PROJECTION--WHICH HE SAID COULD BE OPTIMISTIC--DEPENDS ON US OIL PRODUCTION OF 11 MMBD AND NATURAL GAS PRODUCTION OF APPROXIMATELY 20 TCF/YEAR. SECRETARY SCHLESINGER STATED THAT US INDUSTRY AND THE HOUSEHOLD SECTOR WERE MAKING DRAMATIC STRIDES IN ENERGY CONSERVATION. HE SUGGESTED THAT THE IMPACT OF THE CURRENT COAL STRIKE WAS AMBIGUOUS: IT WOULD DISCOURAGE INDUSTRIES FROM SHIFTING TO COAL BUT IT WOULD HELP GALVANIZE CONGRESS INTO PASSING MEANINGFUL ENERGY LEGISLATION.

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4. WHEN QUERIED ABOUT THE USG'S PRIORITIES BETWEEN SECURITY OF PRICE AND SUPPLY, SCHLESINGER SAID BOTH WERE IMPORTANT. HE SUGGESTED THAT, WHEREAS A GOVERNMENT PROBABLY PLACED A HIGHER PREMIUM ON SUPPLY SECURITY, THE COMPANIES DETERMINED SUPPLY SOURCES. SINCE PRICE WAS KEY TO COMPANY DECISIONS, A PRODUCING COUNTRY MUST PRICE ITS OIL COMPETITIVELY TO MAINTAIN ITS US MARKET SHARE.

5. HERNANDEZ AND HIS COLLEAGUES EXPLAINED PETROVEN'S TEN-YEAR INVESTMENT PROGRAM AND EMPHASIZED THE GOV NEED FOR INFORMATION ABOUT THE LONG-TERM US MARKET FOR OIL IMPORTS, PARTICULARLY FOR RESIDUAL FUEL. HERNANDEZ OFFERED TO ESTABLISH LONG-TERM SUPPLY ARRANGEMENTS WITH US UTILITIES, A PROPOSAL THE SECRETARY TOOK UNDER ADVISEMENT. HERNANDEZ DESCRIBED VENEZUELAN THINKING ON DEVELOPMENT OF THE ORINOCO TAR BELT, MENTIONED THE PRELIMINARY DISCUSSIONS WITH THE JAPANESE ON A \$1 BILLION PILOT PROJECT, AND SUGGESTED A SIMILAR ARRANGEMENT WITH THE USG. SECRETARY SCHLESINGER REQUESTED FURTHER INFORMATION ON THIS IDEA. HE AND DEPUTY SECRETARY O'LEARY STRESSED, HOWEVER, THAT MOST NEW ENERGY TECHNOLOGY FOR EXPLOITING

NEW SOURCES OF OIL, INCLUDING THAT IN THE ORINOCO, WOULD HAVE TO BE DEVELOPED IN THE PRIVATE RATHER THAN PUBLIC SECTOR.

(HERNANDEZ HAD SUGGESTED THAT REDUCED PROFITS FOR THE COMPANIES MIGHT FORCE GOVERNMENTS TO TAKE ON A LARGER SHARE OF R&D ACTIVITY IN THE FUTURE.)

6. HERNANDEZ INSISTED THAT THE GOV RECOGNIZED THE IMPORTANCE OF THE COMPANIES' EXPERTISE AND THAT COMPANIES WOULD CONTINUE TO PLAY AN IMPORTANT ROLE IN VENEZUELA. WHEN PRESSED, HE SAID THAT PRESIDENT PEREZ HOPES TO HAVE ALL REMAINING COMPENSATION ISSUES RESOLVED BY THE END OF THE YEAR.

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7. THE TWO MINISTERS AGREED ON AN INFORMAL ARRANGEMENT OF ENERGY COOPERATION. PERIODIC BILATERAL DISCUSSIONS AT THE STAFF LEVEL WOULD BE HELD TO SHARE US MARKET PROJECTIONS AND VENEZUELAN PLANS FOR ENERGY DEVELOPMENT. OCCASIONALLY, THESE DISCUSSIONS COULD BE RAISED TO THE MINISTERIAL LEVEL. EXPERTS WOULD MEET SOON WITH A VIEW TO ESTABLISHING R&D COOPERATIVE PROJECTS. DOE ASSISTANT SECRETARY BERGOLD WILL BE RESPONSIBLE FOR IMPLEMENTING THE COOPERATIVE PROGRAM FOR THE US SIDE.

8. THE ATMOSPHERE DURING THE MEETING WAS QUITE GOOD. THE VENEZUELAN HAD TO BE IMPRESSED THAT THE TOP TWO DOE OFFICIALS GAVE THEM TWO FULL HOURS DESPITE THE CRITICAL STATUS OF THE ENERGY LEGISLATION ON THE HILL AND THE WEEKEND EVENTS CONCERNING THE COAL STRIKE. HOWEVER, ONE MEMBER OF THE VENEZUELAN DELEGATION EXPRESSED PRIVATELY HIS DISAPPOINTMENT WITH HIS MINISTER'S PERFORMANCE. HE THOUGHT HERNANDEZ SHOULD HAVE USED THE TWO HOURS MORE EFFECTIVELY TO GET MORE INFORMATION ON THE FUTURE US MARKET PLANS AND TO ELABORATE THE TYPE OF GOV-USG ARRANGEMENT THEY HAD IN MIND TO FACILITATE DEVELOPMENT OF THE ORINOCO AND TO INVOLVE THE COMPANIES IN THE PROCESS. WORKING LEVEL MEETINGS ON FRIDAY WILL UNDOUBTEDLY GET INTO THESE ISSUES. VANCE

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